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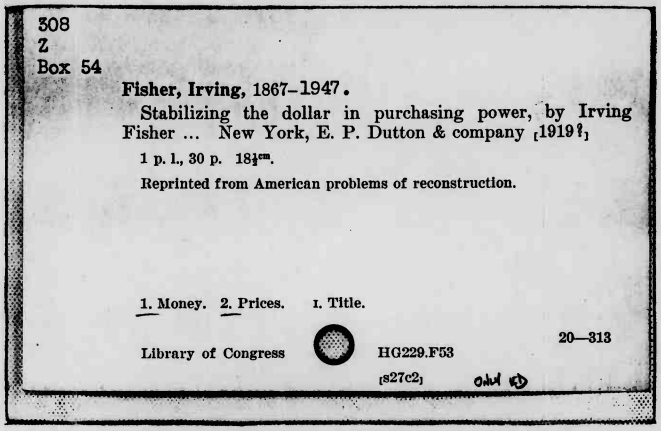

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Stabilizing the Dollar in Purchasing Power

By

IRVING FISHER

Professor of Economics, Yale University,
President, American Economic Association,
Chairman of the Committee of the American Economic Association on the Purchasing Power of Money in Relation to the War

Reprinted from
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STABILIZING THE DOLLAR IN PURCHASING POWER

By Irving Fisher [1]

Professor of Economics, Yale University, President, American Economic Association. Chairman of the Committee of the American Economic Association on the Purchasing Power of Money in Relation to the War

THE FACTS AS TO PRICE MOVEMENTS

General Nature of the Question.—The great war, which in the public mind at first eclipsed the "high cost of living," has finally thrust it again into the foreground. Again we are witnessing world-wide complaint and again we are investigating and legislating on the subject. We are talking of food famines and of a supposed dearth of goods. We are talking of "inflation" brought about by issues of paper money, by expanding credit, and by inflowing gold. Sweden has practically demonetized gold. Price fixing is being tried on a vast scale, public opinion is aroused against the raising of prices, and drastic penalties have been enacted.

The present war will go down in history as probably the greatest destabilizer of price levels the world has ever known. People are gradually awakening to what is happening or beginning to happen. Unfortunately the public discussion which we are now witnessing shows bewilderment and confusion of thought. Yet never was there more need of straight thinking. Without it we may attempt the impossible or, like an infuriated mob, hang the wrong man to the lamp post.

[1] A. B. 1888, Yale; Ph. D. 1891; studied Berlin and Paris. Professor of Political Economy, 1898—; President of the American Economic Association, 1918. Author of works on mathematics and economics, particularly on the Rate of Interest and the Purchasing Power of Money, and on hygiene and public health.

A professor once said to his students: "In beginning the study of any social problem, put to yourself four questions: What is it? Why is it? What of it? What are you going to do about it?" Accordingly I shall take up (1) the actual *facts* to be explained; (2) the chief *causes* which explain them; (3) the resultant *evils* which make a remedy desirable; and (4) the *remedy*—and this not only as to the present high cost of living but as to price movements generally.

Index Numbers.—The prices of various articles do not move together but scatter or disperse like the fragments of a bursting shell. Yet there is always a definite average movement just as there is a definite path of the center of gravity of the shell fragments. In order to depict the average movement of prices we must first have some way to measure it. A very simple way has been devised, called the "index number."

An index number is a number showing the average rise or fall of prices. Thus, if one commodity has risen 4 per cent since last month and another 10 per cent, the average rise of the two is midway between 4 per cent and 10 per cent, or 7 per cent. It is $\frac{4+10}{2}=7$. If we call the price level of the two articles last month 100 per cent, then 107 per cent is the "index number" for the prices of the two articles this month. The same principle, of course, applies to any number of commodities.

Many different systems of index numbers are now before the public—such as those of Bradstreet, Dun, Gibson, the *Annalist*, the United States Bureau of Labor Statistics, the Canadian Department of Labor, the London *Economist*, the London *Statist*, and the British Board of Trade. The present index number of the United States Bureau of Labor Statistics covers 300 commodities. It is an interesting fact that throughout the ages, though prices have sometimes fallen, they have generally risen. In France prices before the war were four to six times as high as five hundred years ago and five to ten times as high as a thousand years ago.

After 1896 prices rose rapidly up to the outbreak of the war. But a much greater upward impulse was imparted by the war itself. The rise before the war, great as it was, amounted, on the average, in the United States, to only one-fifth of 1 per cent per month, and in England to still less; whereas since the war the rise has amounted to 1½ per cent per month in the United States, and much more in many other countries—in Germany and Austria to 3 per cent per month, and in Russia to 4½ per cent per month. To these German and Russian rates, among the records of index numbers which have been computed, there is no parallel. If before the war we could become excited over a continued upgrade of one-fifth of 1 per cent per month, we may begin to understand the feelings of the Bolsheviki, confronted with an uphill movement more than twenty times as steep!

THE CAUSES OF PRICE MOVEMENTS

Some Erroneous Explanations.—Why is the price level always changing? In recent popular discussions a great variety of reasons have been assigned. I shall not discuss in detail the alleged explanations. While some of them represent important factors in raising particular prices, nevertheless only one of them, namely, the war (and foreign trade caused by the war), has been a large factor in raising the general level of prices, and this, of course, only recently. Obviously no explanation of a general rise of prices is sufficient which merely explains one price in terms of another price. To say that the cause of rising "prices" is rising "wages" is merely to say that the prices of commodities have risen because the price of labor has risen; and we might as well turn it about and say that the price of labor has risen because the price of food has risen and so driven workmen to strike for higher wages. Such explanations are as unsatisfactory as the answer of the gardener who, when asked, "Where is the hoe?" replied, "It's with the rake" and when asked, "Where is the rake?" replied, "It's with the hoe."

Scarcity will, in selected cases, go far toward explaining the rise of individual prices. But it will not go far toward explaining changes in the general level of prices—at least not before the beginning of the great war and only partly since that time.

All those who have offered explanations make one fatal mistake. They look at the wrong side of the market. They seek the causes wholly in the goods, the prices of which have changed, and not at all in the money, in terms of which those prices are expressed. It is hardly probable that commodities

should rise in price en masse without some simple explanation in common. This corresponds with common sense. We seldom have world feasts or world famines. If the corn crop is short in some places it is abundant in other places. If it is short in all places the crop of wheat or barley or some other staple food is practically certain to be at least normal. If there is war in Japan, it is not likely that there will also be war in Brazil. A world war or even anything as near to a world war as the present conflict is a most—*the* most—unprecedented event in all history.

Price Fluctuations Due to Money Conditions.—Our conclusion is that until recently, at least, it was a fall in the value of gold, or money, that had taken place, rather than a simultaneous rise in the value of everything else. We have direct statistics to indicate the same conclusion. These show that up to the outbreak of the war in 1914 there was no progressive scarcity of goods in general but rather an increased abundance, and that this continued to be true in the United States even after 1914, possibly up to our entrance into the war in 1917. Only during the war has there been, in this generation, a progressive scarcity of goods in general. Even during the war money inflation has been the more important factor.

That great price movements are chiefly monetary is evinced by the fact that countries of like monetary standards have like price movements. Thus—to consider gold-standard countries—there is a remarkable family resemblance between the curves representing the index numbers of the United States and England. Again, the price movements in silver countries show a strong likeness, as in India and China from 1873 to 1893. On the other hand, we find also a great contrast between gold and silver countries. Speaking roughly, we may say that between 1873 and 1896 the price level in gold countries fell 25 per cent, and in silver countries rose 30 per cent.

In the present war the data are so meager that it is impossible to express the relations in exact figures, but we may arrange the different countries in the approximate order in which their prices have risen. As a result we find that the order of the nations corresponds, in general, with the order in which the currency in those nations has been inflated by paper as well as

with the order in which their monetary units have depreciated in the foreign exchange markets. This order—of ascending prices and of inflated currency—is: India, Australia, New Zealand, United States, Canada, Japan, Sweden, Switzerland, Denmark, Italy, Holland, England, Norway, France, Germany, Austria, and Russia. Confirmatory evidence is found in the fact that the ups and downs of prices correspond with the ups and downs of the money supply. Throughout all history this has been so.

The present war furnishes important examples of this. In the United States the curve for the quantity of money in circulation and the curve for the index number of prices run continuously parallel, the price curve following the money curve after a lag of one to three months, as might be expected, money being the cause and price the effect. It was in August, 1915, that the quantity of money in the United States began its rapid increase. One month later prices began to shoot upward, keeping almost exact pace with the quantity of money. In February, 1916, money suddenly stopped increasing, and two and a half months later prices stopped likewise. Similar striking correspondences have continued to occur with an average lag between the money cause and the price effect of about one and three-quarters months.

The conclusion toward which the foregoing and other arguments lead is that in the past the great outstanding disturber of the price level has always been money, and that at present the great outstanding cause of the high cost of living is money. It is curious that every time inflation of any kind has visited a country the public has had to be reëducated. The evils of colonial and continental paper money were forgotten by the generation of the Civil War, and the evils of the greenbacks are forgotten by most people to-day. At the present time we are confronted with still another kind of inflation, due not to specie but to the use of checks. In so far as we subscribe to our war loans out of money borrowed at the bank—that is, out of an increase of deposit currency and not out of real savings—we are adding to inflation and to its evil effect on the cost of living.

The Gold Dollar Fixed in Weight but Not in Purchasing Power.—Money is so much an accepted convenience in practice that it has become a great stumbling block in theory. Since we

talk always in terms of money and live in a money atmosphere, as it were, we become as unconscious of it as we do of the air we breathe. Some people, even intelligent people, bolster up the illusion that the dollar is a stable standard of value by reference to the fact that "the price of gold" never changes. Only recently a former Government officer asserted that the value of gold is evidently constant because its price is fixed!

I once asked a dentist if the "high cost of living" had affected the price of his materials.

"Yes, of course," he replied.

"Of the gold you buy for fillings?" I ventured jokingly, expecting him to know that this could not be.

To my surprise he answered, "I suppose so," and sent his assistant to look the matter up.

She returned presently and solemnly informed us that the price he paid for his gold was substantially the same now as it always had been during the thirty years he had been buying it.

"Isn't that surprising!" he exclaimed. "Gold must be a very stable commodity."

"It's just as surprising," I replied, "as that the price of a quart of milk is always two pints of milk."

"I don't see the point."

"Well, what is a dollar?" I asked.

"I don't know—what *is* it?"

That simple question is vital. The almost universal ignorance of the answer is chiefly responsible for the almost universal misunderstanding of the high cost of living! A dollar is 25.8 grains of standard gold—that is, of gold nine-tenths fine; and, since an ounce is 480 grains, the number of dollars in an ounce is 480÷25.8, or 18.60. In other words, any 100-ounce lump of standard gold taken by a gold miner to the mint can be cut up and coined into 1860 dollars and handed back to him. Naturally he gets $18.60 an ounce, and this "price" can never vary so long as the weight of the dollar does not vary.

Thus 100 ounces of gold will always be worth 1860 dollars of gold so long as 1860 dollars contain 100 ounces of gold; just as a quart of milk will always be worth two pints of milk so long as two pints make a quart. Gold is stable in terms of itself and in terms of itself only. Fixing the dollar at 25.8 grains of gold fixes the price of gold at $18.60 an ounce. But,

of course, this fixity of dollar weight, or of gold price in terms of gold, does not fix its price or value in terms of other commodities. It does not release gold from the effects of supply and demand. The value of the dollar, as shown by its general purchasing power, is not stable but fluctuates with supply and demand as does the value (or purchasing power) of anything else. There is only this difference: Since a descending value of gold cannot lower the price of gold it must raise the prices of other things in terms of gold; and since an ascending value of gold cannot raise the price of gold, it lowers the prices of other things in terms of gold. The supply and demand of gold and of other things which affect the real value or purchasing power of gold cannot be thwarted. Since we deny to supply and demand of gold the normal outlet of raising or lowering the price of gold, they take their revenge by lowering or raising the prices of other things.

If, instead of gold, we were to make milk the standard, or eggs—that is, if we used these to purchase all other things—they would acquire the same fixity of price—that is, price in terms of milk or eggs; and we would fall victims to the same illusion of inherent fixity. If a dollar, instead of being 25.8 grains of gold, were, let us say, a dozen eggs, obviously the price of eggs would always be a dollar a dozen simply because a dollar *is* a dozen eggs. If the hens did not lay, the price of eggs would not rise (or vary at all), but, instead, the prices of other commodities in terms of eggs would fall; while if eggs were a drug on the market, their price would not fall (or vary at all), but the prices of other commodities, in terms of eggs, would rise—and the mystified public would then be inquiring gravely, "Why this high cost of living?" The world's prices would then be at the mercy of hens just as now they are at the mercy of mines.

We have been deceived by appearances in commerce just as we have been deceived by appearances in astronomy. The earth seems to be fixed and all the other heavenly bodies seem to move.

An increase of money, then, always tends to raise prices. It was thus that prices rose in the mining camps of California a half dozen decades ago and in Colorado and the Klondike one or two decades ago. This local rise of prices soon communicated itself to other places; for the price level cannot in one locality greatly exceed that in a neighboring locality without causing

an export of money to the locality of the lower level. Thus new money gradually finds its way into circulation throughout the world, raising prices as it flows from place to place, the process consisting, in all cases, of the effort on the part of somebody to get rid of an inconvenient surplus—a surplus which cannot be dissipated by transferring it from hand to hand but only by a rise of prices. Of course, the price level is affected not only by the quantity [2] of money. It is affected also by credit currency—that is, the so-called "money I have in the bank," which one pays out in checks. Moreover, the price level is affected by the rapidity of circulation both of money and of deposit currency and by the amount of commodities in trade. The price level may rise because of an increase of money or of deposit currency, or because of their rapidity of circulation, or because of a decrease in the volume of trade. And back of these causes (money, deposits, their velocities, and trade) lie innumerable other causes acting through one or more of them.

THE EVILS OF PRICE MOVEMENTS

But what of it all? Even if the value of the dollar is constantly changing, is there any real harm?

If, for each one of us, the rise of income were to keep up exactly with the rise in cost of living, then the high cost of living would have no terrors; it would be merely on paper. But no such perfect adjustment ever occurs or can occur. Outstanding contracts and understandings in terms of money make them out of the question.

Unjust Transfer of Property.—Consider the debtor and creditor. If Congress should suddenly decree that each present "dollar" should henceforth be two dollars, it is clear that, in practice, the change would not be simply nominal, or a mere matter of bookkeeping. Every creditor, every bondholder, every bank depositor would clearly be cheated out of half his due. If, on the other hand, Congress should decree that what has hitherto

[2] There are still a few students of money who do not accept any form of the "quantity theory" of money. (Fortunately, however, the proposal here made for stabilizing the dollar is not bound up with this theory, although the theory is, I believe, when properly stated, correct.)

been a "dollar" should henceforth be fifty cents, every debtor would be suddenly saddled with a weight of debt twice as heavy as that which he had originally assumed. The same principle of hardship applies to any change in the purchasing power of the dollar even when, as is ordinarily the case, it is unintentional. Moreover, it cannot properly be said that human responsibility is not a factor. Congress, which, under the Constitution, has the power to regulate the value of money, lets that value go unregulated. With each change in the purchasing power of money (in other words, with each change in the price level) some people lose what properly belongs to them and others gain what does not properly belong to them. Our sense of "social justice" is offended.

Cheating of Savings Depositors and Bondholders.—Consider a working girl who put a hundred dollars in the savings-bank in 1896. To-day, if she has allowed it to accumulate at 3 per cent interest, she has two hundred dollars. But when she tries to spend her two hundred dollars, she finds that things cost about double what they did in 1896. Thus she gets for her entire two hundred dollars to-day only as much as she could have bought for her original one hundred dollars at the beginning. After a score of years of self-denial, where is her reward, her interest? She has been (without the intention of anybody) cheated out of all her interest through the depreciation of the "dollars" in terms of which her savings-bank account has been kept! Her interest accrued only fast enough to offset the depreciation in her principal. Like Alice Through the Looking-glass she has had to run as fast as she could in order to stand still! The bondholder is in the same plight. If he has been "living on his interest" the purchasing power of his principal has been decreasing, so that really, although without knowing it, he has been living on capital. To keep his capital unimpaired he would have had to reinvest *all* his interest!

The total financial interests thus affected by changes in the price level are colossal. Shortly before the war Alfred Neymarck estimated the total securities then circulating in the world at 175 to 200 billion dollars! Now, of course, the volume of securities is greater, and the war bonds promise to swell the total by 50 per cent. And besides negotiable securities there are many

private debts which never circulate. There are savings-bank deposits and deposits in ordinary banks running up into scores of billions. Scores of billions of dollars in insurance contracts of various kinds are in existence, many of them running for long terms, such as the span of human lives.

Since the fall of 1915 the dollar has suffered a loss of purchasing power of about 25 per cent per annum. Consequently bondholders owning titles to a fixed number of dollars have not only lost all of their interest of, say, 5 per cent but 20 per cent per annum of their principal besides! The total shift each year must now run up into many billions. At the end of this war millions of people in the United States will own Liberty Bonds; millions will hold War Savings Certificates; millions will be financially interested in the soldiers' insurance, the total of which is expected to exceed a score of billions of dollars, and all these people will be in addition to the millions who already hold savings in the banks or own mortgages or bonds. In Europe, of course, the shift between contracting parties has been even more rapid, because the depreciation of their money has gone on more swiftly. The net effect is really to filch the major cost of the war from the bondholders, old and new (including widows and orphans, colleges and hospitals, and Liberty Bond holders as well), and savings-bank depositors.

Suffering of Salaried Classes Is Cause of Unrest.—The salaried men and, to some extent, the wage earners suffer—that is, the cost is borne by those with relatively "fixed" incomes. With millions of people to be affected and hundreds of billions of dollars stipulated in contracts or otherwise fixed or understood, it becomes a matter of grave concern to the whole world what the "dollar" in these contracts and understandings is to be. When prices rise great profits are made, because, as we have seen, the "profiteer" or stockholder wins without effort from the bondholder and from the salaried and wage employees. His easy profits lead him to "extend himself" until, when interest charges, rents, salaries, and wages catch up, his prosperity ceases, he gets caught in debt and becomes a bankrupt, and a general crisis or even panic may ensue. Every rise in the cost of living brings new recruits to the malcontents who feel victimized by society and have come to hate society. They cite, in their indictment,

the high price of necessities and the high profits of certain great corporations, both of which they attribute, not to the aberrations of our monetary yardstick but to deliberate plundering by "profiteers" or a social system of "exploitation." They grow continually more suspicious and nurse an imaginary grudge against the world. We are being threatened by more quack remedies—revolutionary socialism, syndicalism, and Bolshevikism. Radicalism rides on the wave of high prices.

When the history of this war is written, it may well be that we shall find that the growing popular unrest caused by the high cost of living, the atmosphere of suspicion engendered, and the desire for relief through a policy of commercial expansion had something to do in giving a pretext for, if not causing, the great war. In fact, before the war rising costs of living were manufacturing socialists all over the world, including Germany, and the German Government may have weighed, as one of the expected dynastic advantages of war, the suppression of the growing internal class struggle which this high cost of living was bringing on apace.

Fluctuations Produce Instability and Crises.—We have seen that the primary evil of these aberrations is social injustice, a sort of subtle pocket picking. At first glance it might seem that such a transfer is not a general evil, for what some lose others gain. But the secondary evils *are* very general, namely, the evils from speculation, uncertainty, crises, depression, resentment, violence, and ill-considered legislation. Thus, curiously enough, as with ordinary gambling, even the ill-gotten gains of the winners are largely swept away in the end. Thus, as at the present time, when prices are rising, the strikes, riots, and violence which are the secondary effects of rising prices destroy the profits of the winners by blocking the wheels of industry and even destroying its tools. If we are going to have discontented workmen smash our windows and our machinery, it is not so much a question of who is going to get the profits as a question of whether there are going to be any profits.

Similarly when, during a period of falling prices, the vampire is not the profit-taker but the creditor, the winner is also apt to lose his winnings. The bondholder is usually and normally the simple investor of capital, the "silent partner" in business. He lacks

the temperament and training to be a captain of industry. But, after years of falling prices, during which he has been draining, unobserved, the life-blood of the enterprise whose bonds he holds, until there is no profit left for the captain of industry who has been managing it, the mortgage is foreclosed and the captain, held responsible for the shipwreck, is forced out, discredited, humiliated, and unable to articulate or even to understand that it was not wholly his fault, if at all, but the fault of his instrument of reckoning, the dollar. Thereupon the bondholder is forced to take control. Thus the management drifts into wrong hands, turns into mismanagement, and the bondholder is hoist with his own petard. He has been an unconscious Shylock, exacting his pound of flesh until he has overreached himself. As David Harum wisely said, "It's not a bad idea to let the other fellow make a dollar once in a while." In short, almost no one gains long or gains much either from rising prices or falling prices. Either implies enormous social wastes. Therefore, to society as a whole, there is a great net loss, just as there would be from confusion and uncertainty in the yardstick of length or in the pound of weight.

THE REMEDY [2]

We are now ready for the practical question, "What are you going to do about it?"

There are really two problems included in "the high cost of living"—(1) the problem of the number of dollars in our income and (2) the problem of how much each of these dollars will buy. The plan which I shall propose has reference to the solution of this second problem—the problem of the purchasing power of the dollar. Almost none of the other remedies for "the high cost of living" would have any direct or substantial effect on the general level of prices. I do not except price fixing, though from that the public is now expecting a great deal. The largest reduction effected through recent price fixing has been the reduction of 70 per cent in the price of steel plates; and this reduction, great as it is, has had almost no effect on the general price level. The index number of the United States Bureau of Labor Statistics, embracing three hundred commodities of which steel plate is one of the least important, is reduced thereby only one-third of 1 per cent! Even if we reduce the price of wheat and coal by 10 per cent the effect on the index number is only 1 per cent. When we remember that few reductions attempted through price fixing have exceeded 10 per cent and that the total number of articles affected is not large, being chiefly confined to a few individual foodstuffs, fuels, and metals, we shall realize that price fixing, however drastic and however useful for other purposes, can never greatly affect the general price level—that is, the price level of that inconceivably great and ponderous mass of goods which makes up our commerce.

[2] I find that, in most essentials of the plan described here, I have been anticipated by several others, including Simon Newcomb, the astronomer, and Alfred Russel Wallace, the naturalist. See "Objections to a Compensated Dollar Answered": *Am. Econ. Review*, December, 1914, and the prospective book referred to below.

Fix the Purchasing Power of a Dollar.—The real culprit being the dollar, the real remedy is to fix the purchasing power of the dollar.

I have in preparation a book on the subject ("Stabilizing the Dollar," Macmillan) which will go into more detail than is here possible. But the essence of the plan is very simple.

Our dollar is now simply a fixed weight of gold—a unit of weight, masquerading as a unit of value. A twentieth of an ounce of gold is no more truly a unit of value or general purchasing power than a pound of sugar or a dozen eggs. It is almost as absurd to define a unit of value, or general purchasing power, in terms of weight as to define a unit of length in terms of weight. We would scarcely define a yardstick as any stick which weighs an ounce. There used to be a song about a shopkeeper who, being asked the price of a box of socks, replied, "One dollar a box." "I'll take the box," said the customer, handing over his dollar; whereupon the shopkeeper took out the socks and handed over the box. "I sold you the box, not the socks," said he. Our dollar is somewhat like that box. It keeps its form but loses its contents. The removal, in this case, is not intentional or committed by one of the parties to the contract, but so much the worse!—for the injured party has no recourse. It is as if the buyer of the box of socks were forced to agree in advance to let a bystander remove or insert socks ad libitum.

What good does it do us to be assured that our dollar *weighs* just as much as ever? Does this fact help us in the least to bear the high cost of living? We complain of the dollar, and justly, that it will not go as far as it used to. We want a dollar which will always buy the same aggregate quantity of bread, butter, beef, bacon, beans, sugar, clothing, fuel, and the other essential things that we spend it for. What is needed is to stabilize or standardize the dollar just as we have already standardized the yardstick, the pound weight, the bushel basket, the pint cup, the horse-power, the volt, and, indeed, all the units of commerce except the dollar. All these units of commerce have passed through the evolution from the rough and ready units of primitive times to the accurate ones of to-day, when modern science puts the finest possible point on measurements of all kinds. Once the yard was defined, in a rough and ready way, as the girth of the chieftain of the tribe and was called a gird. Later it was the length of the arm of Henry the First, and still later the length of a bar of iron in the Tower of London. To-day we have at Washington a Bureau of Standards where the modern yardstick is determined by a bar of metal amalgam noted for its insensibility to changes in temperature but nevertheless kept in a room of constant temperature, under a glass case, and not approached by the observer, lest the warmth of his body should cause it to vary, but sighted through a telescope across the room!

Except the dollar, none of the old rough and ready units are any longer considered good enough for modern business. The dollar is the only survival of those primitive crudities. Imagine the modern American business man tolerating a yard defined as the girth of the President of the United States! Suppose contracts in yards of cloth to be now fulfilled which had been made in Mr. Taft's administration!

And yet the shrinkage in such a yardstick would be no greater than the shrinkage we have suffered in the far more important yardstick of commerce, the dollar; and this yardstick is used, not only in the few contracts in which the yardstick of length is named, but in all contracts of business! We tolerate our crazy dollar only because the havoc it plays is laid to other agencies. If its victims knew the truth about the dollar it would be put in a strait-jacket at the very next session of Congress;

for the evils of it—evils of confusion, uncertainty, social injustice, discontent, and disorder—are as vast as would be the evils if all the other units of commerce—the yardstick, the bushel basket, the hour of work, etc.—should be left to the tender mercies of chance.

And yet we tenaciously keep to that standard in the blissful assumption that it never varies, justifying this illusion by noting that the price of gold, in terms of itself, always remains $18.60 an ounce, nine-tenths fine! We seem to like to humbug ourselves.

Any Single Commodity Is Too Variable a Standard.—A true standard of value, or general purchasing power over commodities, should not be dependent on one commodity merely, whether that commodity be gold or silver or wheat or what not.

Two commodities would be better than one, just as two tipsy men walk more steadily arm in arm than separately. Whenever they tend to lurch in opposite directions they neutralize each other. This is the argument which used to be urged for bimetallism, symmetallism, and other plans for uniting gold and silver. And the argument applies whenever gold and silver move in opposite directions, as from 1873 to 1896. If, for instance, a generation ago we had adopted a dollar of an amalgam [4] consisting of half of the former gold dollar and half of the former silver dollar, our price level would not have suffered the rapid fall it did prior to 1896 in common with the units of other gold-standard countries, nor would it have suffered the rapid rise which the units of silver-standard countries experienced. It would have kept intermediate between the diverging price movements of gold countries on the one hand and silver countries on the other.

But such an amalgam of only two commodities, while in many cases it would be steadier than either and in all cases steadier than the less steady of the two, would not really be very steady. A composite of gold, silver, copper, platinum, and all the other metals would be somewhat more stable than an amalgam of two, just as a number of tipsy men can walk more steadily arm in arm than two only, it being wholly unlikely that all the men in the

[4] A bill for this purpose was actually proposed in 1879 by Congressman Stephens. (Hepburn, "History of Currency in the United States," p. 288.)

line will lurch in the same direction at the same instant. The lurching of some in one direction can always be depended on to offset materially the lurching of others in the other direction. We can usually trust to luck if there is enough of it!

But why use metals? The index numbers of the United States Bureau of Labor Statistics show that the group of "metals and metal products," taken as a whole, is the most erratic of all the groups [5] of commodities.

The Multiple Standard of Commodities.—In order to secure a dollar constant in its purchasing power over goods in general, it should, in effect, be a composite of those very goods in general. For instance, we might imagine a composite commodity dollar consisting of 2 board feet of lumber (made up of various kinds); 1/20 of a bushel of wheat; ¾ of a pound of steers; ½ of a pound of meat; 30 pounds of coal; 1/100 of a barrel of white flour; 1 pound of sugar; ½ of a pound of hogs; 1/3 of a pound of cotton; 1/3 of a gallon of petroleum; 1 egg; 1 pint of milk; 1 ounce of butter; 1/30 of a bushel of corn; 1/25 of a bushel of potatoes; 1/100 of a pair of shoes; 1½ pounds of hay; 1 ounce of hides; 1 ounce of tobacco at the farm; ½ of an ounce of manufactured tobacco; 1½ ounces of lard; ½ of an ounce of leather; 1/7 of an ounce of wool; ¾ of a pound of steel; 1 ounce of copper; 1/10 of an ounce of rubber; 1/300 of a gallon of alcohol; 2 ounces of soap.

These happen to be the relative quantities of some of the three hundred commodities used by the United States Bureau of Labor Statistics in making up its index number of prices. The entire list, of which the articles specified are the more important, was actually worth one dollar in 1909.

If at that time we had established such a dollar as our unit—that is, a composite dollar consisting of a big basket containing those three hundred bits of goods—that composite basketful of commodities—or "goods-dollar," let us call it—would evidently have to be worth a dollar at all times; and the cost of living—at least the cost of the representative assortment in that basket—

[5] The groups are nine, namely: farm products; food, etc.; clothes and clothing; fuel and lighting; metals and metal products; lumber and building materials; drugs and chemicals; house furnishing goods; and miscellaneous.

could not rise or fall. That assortment would always cost a dollar simply because a dollar is that assortment. In short, it would be just as simple then to keep the price of the composite package of 300 commodities invariable (however widely its constituents might vary among themselves) as it is now to keep the price of gold invariable. The price of that composite would always be a dollar, just as to-day the price of gold is always $18.60 an ounce, and just as, under an egg standard, the price of a dozen eggs would always be a dollar, and just as, with an amalgam of gold and silver, the price of that amalgam would be constant however much its constituents might vary relatively to one another.

Even this composite or goods-dollar might not be ideal and constitute an "absolute" standard of value, but no one will deny that it would be a great practical improvement over our present standard—just as great an improvement as it was, for instance, to adopt for the unit of length the length of the king's arm, instead of the girth of the chieftain of the tribe.

And this composite goods-dollar is not altogether a joke. I am going to suggest its adoption!

Perhaps some scornful reader is now eager to point out how inconvenient, not to say grotesque, such a dollar would be if it were in circulation or were used for export or import. With its 30 pounds of coal, it is far too heavy to carry; with its coal and wood and hay, it is far too bulky for the pocket; its solitary egg would spoil; while to divide a pair of shoes into a hundred parts would annihilate its value. Gold is to be preferred because it is imperishable, easily divisible, easily portable, and easily salable. And these are precisely the attributes which led us to select gold; and not, as some people mistakenly assume, any attribute of stability.

Gold a Medium of Exchange Used with a Commodity Standard of Value.—By all means, then, let us keep the metal gold for the good attributes it has—portability, durability, divisibility, salability—but let us correct its instability, so that one dollar of it will at all times buy approximately that composite basketful of goods. Money to-day has two great functions. It is a medium of exchange and it is a standard of value. Gold was chosen because it was a good medium, not because it was a good standard.

The argument that gold became money because it was thought

to be a good standard of value is, so far as I can find out, an unfounded myth. Indeed, when it came into use as money, there were no index numbers and there was therefore no way of testing its stability or instability; and finally at that time there was not much need and not much thought of a standard of value, for the good and sufficient reason that there were few if any time contracts, such as promissory notes, mortgages, or bonds. Almost all bargains were struck and settled on the spot. When a man was about to make a cash purchase it was immaterial to him what the monetary unit was.

But to-day if a man buys an article and promises to pay for it in three months the case is different. When the time for payment arrives it is very important for him to know whether the "dollar" is the same as was contemplated when the agreement was made. With our network of long-time contracts, running months, years, generations, or even centuries, including hundreds of billions of dollars in promises to pay money—promissory notes, mortgages, debentures, railway bonds, Government bonds, leases, etc.—the function of a standard of value—that is, a standard of deferred payments—has grown to be perhaps the more important of the two functions of money.

In short, because our ancestors found a good medium of exchange, we now find ourselves saddled with a bad standard of value. The problem before us is to retain gold as a good medium and yet to make it into a good standard; not to abandon the gold standard but to rectify it; not to rid ourselves of the gold dollar but to adapt it to the composite or goods-dollar. Under the plan here to be presented, gold is retained as the ultimate means of redemption. There is essentially the same mechanism by which gold freely enters or leaves the circulation. But under this plan the gold dollar will become a standard of value instead of a standard of weight. We now have a gold standard that is forever fluctuating. It is a gold standard with the "standard" left out! The proposal is really to put the standard into the gold standard—to standardize the dollar.

Vary the Weight of the Dollar.—The method of rectifying the gold standard consists in suitably varying the weight of the gold dollar. The gold dollar is now fixed in weight and therefore variable in purchasing power. What we need is a gold dollar fixed

in purchasing power and therefore variable in weight. I do not think that any sane man, whether or not he accepts the theory of money which I accept, will deny that the weight of gold in a dollar has a great deal to do with its purchasing power. More gold will buy more goods. Therefore more gold than 25.8 grains will buy more goods than 25.8 grains will buy. If to-day the dollar, instead of being 25.8 grains, or about one-twentieth of an ounce, of gold, were an ounce or a pound or a ton of gold, it would surely buy more than it does now, which is the same thing as saying that the price level would be lower than it is now.

A Mexican gold dollar weighs about half as much as ours and has less purchasing power. Certain South American dollars are still lighter and have correspondingly less purchasing power. A friend reports that in Colombia he paid fifteen dollars for a shoe shine. Now, if Mexico or Colombia should adopt the same dollar that we have and that Canada has, no one could doubt that its purchasing power would rise—that is, the price level in Mexico and Colombia would fall. If the heavier or the lighter the gold dollar the more or the less will be its purchasing power, it follows that if we add new grains of gold to the dollar just fast enough to compensate for the loss in the purchasing power of each grain, or vice versa take away gold to compensate for a gain, we shall have a fully "compensated dollar," a stationary instead of a fluctuating dollar, when judged by its purchasing power.

But how, it will be asked, is it possible, in practice, to change the weight of the gold dollar? The feat is certainly not impossible, for it has often been accomplished. We ourselves have changed the weight of our gold dollar twice—once in 1834, when the gold in the dollar was reduced 7 per cent, and again in 1837, when it was increased one-tenth of 1 per cent. If we can change it once or twice a century, we can change it once or twice a month!

Use Paper for Currency and Abolish Gold Coins.—And if we use paper representatives of gold exclusively, instead of some paper and some gold coins, these monthly changes in the weight of the gold dollar can be made even more easily than the occasional changes were made which history records. In actual fact, gold now circulates almost entirely through "yellowbacks," or gold certificates. The gold itself, often not in the form of coins at

all but of "bar gold," lies in the Government vaults. A bar of gold nine-tenths fine weighing 25,800 grains is just as properly to be called one thousand dollars of 25.8 grains each as if that bar were cut up into a hundred separate pieces and each were stamped into a ten-dollar gold piece. The thousand gold dollars already exist embedded or welded together in the gold bar, while the right of ownership in them circulates in the form of paper "yellowbacks." Since, then, even to-day most of our gold dollars do their circulating in the form of paper, what inconvenience would it cause if the only circulation of gold were in the form of paper? Most of the people in England who before the war carried gold in their pockets by preference have already been weaned from the habit; and most of the few Americans, in California and Oregon, who still do so will soon be weaned from it in the same way.

It would therefore be little more than expressing in law an existing custom if gold coins were abolished altogether. For simplicity, we shall assume that this has been done. When, therefore, I speak of changing, from time to time, the weight of the gold dollar, the reader need not conjure up visions of repeated recoinage or visions of gold eagles of various weights jangling together in confusion in the market place. Let him rather banish gold coins entirely from his mind and think of a dollar as simply a number of grains of gold bullion in the vaults of the United States Treasury, that number changing from time to time but always definite and specific at any time, and let him remember that in actual circulation this gold bullion is represented by yellowbacks.

The abolition of gold coin would make no material change in the present situation. Gold would, just as at present, be brought by the gold miner to the mint or the assay office or other Government depository, and he would, just as at present, receive paper tokens or yellowbacks in return. This sale of gold to the Government for yellowbacks—that is, this free deposit—is really the essence of the so-called "free coinage." It is thus that gold gets into circulation, through its representative, the yellowback.

Moreover, the gold in the Treasury would serve, just as at present, for the redemption of the gold certificates. The jeweler or gold exporter would, just as at present, obtain gold for his purposes by exchanging yellowbacks for gold at the Treasury. Every dollar of gold whose corresponding yellowback was thus

taken out of circulation would reappear as bullion in the arts or be added to foreign circulation. The process would therefore be virtually a flow of gold dollars, of fixed value but variable weight, from the circulation into the arts or abroad. Such exchange is the ultimate "redemption" of gold certificates. The usual object of redemption is either the export or melting of gold. The Scandinavian banks keep some of their gold abroad all the time, being allowed to count such gold as reserve. When someone presents notes to them in order to get gold to send to London he simply receives the ownership of some of the gold already in London.

Thus free coinage, or rather free deposit, and free redemption would go on substantially as at present, the one increasing and the other decreasing the volume of bullion certificates—that is, the virtual gold in circulation. The essential mechanism of our gold-standard system may be pictured as a lake of gold in circulation in the form of yellowbacks fed by "free coinage," or deposit by miners, and drained by free redemption, or withdrawal by jewelers and exporters.

If gold thus circulated only in the form of paper representatives it would evidently be possible to vary at will the weight of the gold dollar without any such annoyance or complication as would arise from the existence of coins. The Government would simply vary the quantity of gold bullion which it would exchange for a paper dollar—the quantity it would give or take at a given time. As readily as a grocer can vary the amount of sugar he will give for a dollar, the Government could vary the amount of gold it would give or take for a dollar. To-day the Government will give 25.8 grains of gold bullion to the jeweler or exporter for each dollar of certificates [6] he pays in; next month it might give 26 grains or only 24 grains. These respective increases or decreases would of course be made for the purpose of compensating the decreases or increases in the purchasing power of the dollar.

[6] The wording on the certificates would of course need to be slightly changed. They could no longer be properly called warehouse receipts, nor would they be exactly analogous to Government notes; they would be intermediate between the two. They might be described as "gold-dollar certificates." They would be redeemable at any time in the then official weight of the gold dollar—a variable weight but constant worth, instead of the converse, as at present.

Periodic Variation of Weight Based on Index Number.—But, it will now be asked, what criterion is to guide the Government in making these changes in the dollar's weight? Am I proposing that some Government official should be authorized to mark the dollar up or down according to his own caprice? Most certainly not. A definite and simple criterion for the required adjustments is at hand—the now familiar "index number" of prices. The Bureau of Labor Statistics, which now publishes an index number, the Bureau of Standards, or other suitable Government office would be required to publish this number at certain stated intervals, say monthly. That is, each month the bureau would calculate from current market prices how much would have to be paid for our composite basket of goods. This figure it would publish and proclaim; and this figure would then afford the needed official sanction to the Secretary of the Treasury to change the rating of the gold dollar—that is, to change the amount of gold which the mint would give or take for a gold certificate, and thus increase or diminish the purchasing power of that certificate. The certificate would always be equal to the gold dollar; and the gold dollar would be kept equal to the goods-dollar, which is the ultimate standard. If, for instance, the index number representing the current price of our composite basket of goods is found to be 1 per cent above the ideal par—that is, above the one dollar price it had at first—this fact will indicate that the purchasing power of the dollar has gone down; and this fact will be the signal and authorization for an increase of 1 per cent in the weight of the gold dollar. For what is added to the weight of the gold dollar will be automatically registered in the purchasing power of its circulating certificate.

If you ask how I know that this 1 per cent increase in the weight of the gold dollar is just sufficient to drive the index number (or price of our composite basket of goods) back to par (or one dollar), I answer that I don't know, any more than I know, when the steering wheel of an automobile is turned, that it will prove to have been turned just enough and not too much. Many things may interfere in a month. But if the correction is not enough, or if it is too much, the index number next month will tell the story. Absolutely perfect correction is impossible, but any imperfection will reappear at the next date for adjustment and so cannot escape ultimate correction.

Suppose, for instance, that next month the index number is found to remain unchanged at 101. Then the dollar is at once loaded an additional 1 per cent. And if, next month, the index number is, let us say, 100½ (that is, one-half of 1 per cent above par), the one-half of 1 per cent will call for a third addition to the dollar's weight—this time one-half of 1 per cent. And so, as long as the index number persists in staying even a little above par, the dollar will continue to be loaded each month, until, if necessary, it weighs an ounce—or a ton, for that matter. But, of course, long before it can become so heavy, the additional weight will become sufficient; so that the index number will be pushed back to par—that is, the circulating certificate will have its purchasing power restored.

Or suppose the index number falls below par, say 1 per cent below. This fact will indicate that the purchasing power of one dollar has gone up. Accordingly, the gold dollar will be reduced in weight 1 per cent, and each month that the index number remains below par the now too heavy dollar will be unloaded and the purchasing power of the certificate brought down to par. Thus by ballast thrown overboard or taken on, our index number is kept from wandering far from the proper level—that is, from the price of one dollar per composite basket of goods. In short, the adjustment, like all human adjustments, takes place "by trial and error." There is always a slight deviation, but this is always in process of being corrected. The steering wheel keeps the monetary automobile, not exactly in the straight line marked out, but always near it on one side or the other, so that its deviation will always afford the criterion needed for steering it back.

It does not matter in the least what the cause or causes of deviation may be. They may be connected with gold or bank credit or anything else. The deviation, no matter how caused, would bring a counterbalancing change in the gold dollar's weight and the change in that weight would go on every month as long as the deviation in the index number continued. The result is that the price level would oscillate only slightly. Instead of great price convulsions, such as we find throughout history, the index number would run, say 101, 100½, 101, 100, 102, 101½, 100, 98, 99, 99, 99½, 100, etc., seldom getting off the line more than 1 or 2 per cent.

The process of correcting the dollar has just been likened to

steering an automobile. It might better be compared to the automatic regulation of the "governor" on a steam engine or to the method of securing a "compensated" pendulum. Every aberration brings its own correction. And so we conform our gold dollar, approximately, to the composite or goods-dollar. Each dollar of bank notes and other fiduciary money would, as now, be redeemable in a dollar of yellowbacks, and therefore such paper money would be, exactly as now, at parity with yellowbacks. Each dollar of these yellowbacks, or gold-dollar certificates, would, in turn, be redeemable at the Government offices in a gold-bullion dollar and would, therefore, always be of equal value therewith; and finally, each dollar of gold bullion would, by periodical adjustment of its weight through an index number, be kept very nearly equivalent to the imaginary basket of goods described as the composite dollar.

All dollars, bank notes, etc., yellowbacks, and gold bullion would be absolutely equivalent to one another and would be approximately equivalent to the composite or goods-dollar. We would then be substantially rid of a fluctuating price level with its long trains of bad consequences. The monetary yardstick would at last be standardized.

To complete the statement of the plan, one proviso needs still to be mentioned. To avoid speculation in gold at the expense of the Government, a small fee, corresponding to what used to be called "brassage," should be charged to depositors of gold, and no single change in the dollar's weight should exceed that fee.

This is a technical detail and, with other technical points, such as the status of the reserve behind the gold-dollar certificates, the initial par of the index number, the selection and revision of the items making up the composite dollar, the possible retention of gold coins and coinage, etc., need not here be entered upon. What has been said is meant—and is enough—to show that we have the power, if we will but use it, to stabilize the purchasing power of the dollar and therefore to stabilize also the general level of prices.

CONCLUSION

Summary of Plan.—The plan, then, as above set forth, is, in brief:

(1) To abolish gold coins and to convert our present gold certificates into "gold-dollar certificates" entitling the holder to dollars of gold bullion of such weight as may be officially declared from time to time.

(2) To retain the virtual "free coinage"—that is, deposit—of gold and the free redemption of gold-dollar certificates.

(3) To designate an ideal composite goods-dollar consisting of a representative assortment of commodities, worth a dollar at the outset, and to establish an index number for recording, at stated intervals, the market price of this composite dollar in terms of the gold dollar.

(4) To adjust the weight of the gold-bullion dollar at stated intervals, each adjustment to be proportioned to the recorded deviation of the index number from par.

(5) To impose a small "brassage" fee not to exceed any one change in the gold dollar's weight.

The plan should, of course, start off with the price level actually existing immediately before its adoption. There would therefore be no shock in adopting the goods-dollar as our unit by varying the weight of gold bullion to represent that goods-dollar. In fact, there would be less shock than when we adopted standard time and changed our watches accordingly. Just as the time engagements of the whole world have been modified and simplified by the shift of watches from local to standard time, or, more recently, by the shift for "daylight saving," so the money engagements of commerce would all be put on a true standard without jar or confusion.

Substantially the same kinds of money would be passed from hand to hand as before the system was adopted, and the ordinary man would be quite unaware of any change, as unconscious, in fact, of the operation of the new system as he is now unconscious of the operation of the present system, or as were the inhabitants of India when the "gold exchange" standard went into force a quarter of a century ago.

The Essential Point.—The crux of the plan lies in the steering rule by which the index number regulates the dollar's weight. Its significance is that to keep the gold dollar from shrinking in value we make it grow in weight, thus recognizing that a depreciated dollar is a short-weight dollar; and reversely, to keep the dollar from growing in value we make it shrink in weight,

thus recognizing that an appreciated dollar is an overweight dollar.

Or again, since a heavier or lighter dollar simply means a lowered or raised price of gold, we may say that to keep the level of prices of other things from rising or falling we make the price of gold itself fall or rise.

At present, with a dollar always weighing 25.8 grains, the price of gold, nine-tenths fine, is always $18.60 an ounce. However much gold may really depreciate, our artificially defined dollar creates an artificially fixed price. It does not allow gold depreciation to show itself in a lowered price of gold. Consequently it shows itself abnormally—in the raised prices of other things. It is, I submit, both wrong and absurd thus to force other things to register the fluctuations in the value of gold. When gold depreciates, its price should fall. Furthermore, when the price of anything else, say corn, rises, we ought to be able, as we are not now, to be reasonably sure that this rise represents a rise in that corn and not a fall in gold.

At present the Government is not authorized by law to mark gold down when it goes down and up when it goes up. The grocer can mark his goods up or down, incidentally including even the depreciation or appreciation of gold. He can increase or decrease the number of pounds of sugar he will give for a dollar. But the Government is helpless. When a flood of gold pours in from Cripple Creek or the Rand, or from war-ridden Europe, the Government is not permitted to increase the weight of a dollar's worth of gold above 25.8 grains or to decrease the price of gold below $18.60 an ounce. Instead, therefore, there is a redundant currency and a "high cost of living." If, on the other hand, as may be the case after the war, exporters demand our gold, our Government is equally helpless to reduce the weight of a dollar's worth of gold below 25.8 grains or to raise the price of gold above $18.60 an ounce, and a violent contraction of the currency will follow.

The system now operates spasmodically through additions to our currency by the miners and subtractions from it by the jewelers and exporters, all according to the vagaries of the gold supply and the gold demand. Thus do we leave our yardstick of commerce to the chances of the gold market and whatever influences affect that market.

The only classes which would notice the change as a result of the proposal would be the gold miners and importers of gold bringing gold to the mint, who would find that the price they could get would not always be $18.60 per ounce, and the jewelers and exporters desiring gold bullion, who would find that the price they would have to pay to the Treasury would not always be $18.60 per ounce.

A Fixed Standard Would Prevent Involuntary Theft.—Our National Constitution forbids the States to impair the obligation of contracts, and the National Government itself is supposed to conform to the principle of this prohibition (with certain exceptions, such as bankruptcy laws). But with our variable yardstick of commerce the conformity is, at best, to the letter, not the spirit, because the letter of the contract and the law fix the obligation in gold by weight, but the contracting parties are not concerned with what a gold dollar weighs; usually in fact they do not even know that a dollar is only a weight unit. The meeting of their minds is on the basis of what a dollar is worth in commerce, and they make little allowance for any change in that worth.

Thus, under the very protection of the constitutional provision mentioned, one of the parties to the contract always robs the other to some extent. This social pocket picking, unconscious but real, would, if our monetary yardstick were regulated, cease; and with it would cease also discontent, jealousy, and suspicion in so far as these grow out of that species of social injustice Crises and depressions of trade would be reduced in their intensity, if not rendered impossible. The fundamental reason for much unsound speculation would be taken away.

The proposal here made is simply to authorize a raising or lowering of the sluice gates by which gold flows in or out, so as to keep our money lake at a uniform level. By increasing or decreasing the dollar's weight, we would thus be providing against either a flood or a drain of money. The plan would put a stop, once for all, to a terrible evil which for centuries has vexed the world, the evil of dislocating contracts and monetary understandings. All contracts, at present, though nominally carried out, are really tampered with as truly as if false weights and measures were used for delivering coal or grain. Business, now

periodically disturbed by the pranks of our mischievous dollar, would be put on a securer foundation than ever before; for the greatest and most universal uncertainty or gamble, all the more disastrous because unseen—the gamble in gold—would be removed.

After-war Significance of the Plan.—The whole question of monetary standards must come up for discussion soon after the war is over. History will repeat itself in some degree. Europe will almost certainly see a "greenback" party arise as we did after the Civil War, opposed to any return to the old metallic basis, especially as that return will double or quadruple the cost of paying off the war loans. The bimetallist and free-silver exponent also will probably appear once more. In fact, I am credibly informed that some silver interests are now preparing their propaganda and occasionally launching some of it.

There will also be the great international question: Whether or not to restore the old pars of international exchange, all or almost all of which have been severed by the war in one way or another. This being the case, shall we supinely leave our standard of value to drift, the puppet of circumstances, when we can so easily stabilize it? Are we going to let the value of our American dollar and the magnitude of our billions upon billions of dollars' worth of American contracts be the accidental result of unknown and unknowable European policies after the war? Are we forever to be at the mercy of conditions which we can not control? And be it noted that all the above-mentioned problems for Europe will be greatly simplified, if, for once, a really scientific solution of the problem of money standards is reached by one nation.

The world is now looking to us, as never before, for leadership. It is our golden opportunity to set world standards. If we adopt a stable standard of value, it seems certain that other nations, as fast as they can straighten out their affairs, resume specie payments, and secure, again, stable pars of exchange, will follow our example. After gold and silver fell apart in 1873, the nations, one after another, adopted the common standard of gold; and now, after the falling asunder of all the pars of international exchange from this world war, the new order will

probably be set by whatever nation first seizes the opportunity and takes the lead.

There is a further reason why the present is a golden opportunity. This is that we do not now have to consider the objection which existed before the war to one nation alone standardizing the dollar, namely, that it would embarrass our foreign trade by breaking existing pars of exchange. The pars have been broken already—even with England, though she has succeeded in "pegging" exchange at $4.76 for the present. And most of these pars will probably remain broken for several decades to come, just as ours did, because of the Civil War, for the period 1861–1878, or as the English did, because of the Napoleonic wars, for the period 1801–1821. It will be a surprise if before the middle of the twentieth century stable pars are again reached. Standardizing our own dollar will therefore not break pars of exchange but, on the contrary, will help foreign nations to make them again. And broken pars of exchange are of relatively slight consequence in any case. The important undertaking is to put our own internal commerce on a stable basis; and our internal commerce is probably a score of times as important as our foreign commerce.

From all standpoints, then, we now have the greatest opportunity of history to set and regulate the monetary standards of the world.

If We Miss the Chance.—If we do not do this, if we do not provide a really scientific remedy, if we take the ground that we must simply drift with the tides of gold and credit, that we are helpless to do anything to rectify or prevent in the future the great social injustices which history warns us will surely come, as between creditor and debtor, wage earner and employer, salaried man and profit-taker, we shall be simply fertilizing the soil of public opinion for a dangerous radicalism. Then surely some demagogue will flourish and offer an ill-considered remedy which will sweep everything before it. We shall then see, not a scientific study of a technical problem with a willingness of all parties to have an equitable settlement, but outraged justice will call forth revengeful effort and we shall witness a great selfish class struggle. Discontent, unrest, suspicion, class hatred, violence, charlatanism will follow, and even if a fairly satisfactory

settlement ever grows out of such unpromising soil there will remain a bitterness embedded in it which will not disappear for generations.

Even if our shifting dollar were guiltless of most of the offenses charged, even if the high cost of living of to-day had no relation to the dollar, there would still be excellent reasons for standardizing it—on the same general principle on which we have standardized all other units. Accordingly, a friend suggests that the plan be presented independently of the "cost of living" discussion, purely as a problem of weights and measures.

But the indictment will stand. The more the evidence in the case is studied the deeper will grow the public conviction that our shifting dollar is responsible for colossal social wrongs and is all the more at fault because these wrongs are usually attributed to other causes. When those who can apply the remedy realize that our dollar is the great pickpocket, robbing first one set of people and then another, to the tune of billions of dollars a year, confounding business calculations and convulsing trade, stirring up discontent, fanning the flames of class hatred, perverting politics, and, all the time, keeping out of sight and unsuspected, action will follow and we shall secure a boon for all future generations, a true standard for contracts, a stabilized dollar.

[The plan as here outlined has received the approval of a large number of economists and business men of influence, including President Hadley, of Yale University; a committee of economists appointed to consider the purchasing power of money in relation to the war (consisting of Royal Meeker, United States Commissioner of Labor Statistics; Professor Wesley Clair Mitchell, of Columbia University; Professor E. W. Kemmerer, of Princeton University; Professor Warren M. Persons, of Colorado College; Professor B. M. Anderson, Jr., of Harvard University and myself); Frank A. Vanderlip, president of the National City Bank of New York; George Foster Peabody, of New York; John Perrin, Federal Reserve Agent of San Francisco; Henry L. Higginson, of Boston; Roger W. Babson, statistician; John Hays Hammond, mining engineer; John V. Farwell, of Chicago; United States Senator Robert L. Owen; the late Senator Newlands; and Sir David Barbour, one of the originators of the Indian gold exchange standard.]

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